

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 21, 2003

The Capital Projects and Bond Oversight Committee met on Tuesday, October 21, 2003, at 1:00 PM, in Room 131 of the Capitol Annex. Representative Jodie Haydon, Co-Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senators Virgil Moore and Jerry Rhoads; and Representative Paul Marcotte.

Senator Leeper joined the meeting by video conference from the Crisp Center at Paducah Community College.

Guests testifying before the committee: Jamie Link, Department for Facilities Management; Bill Hintze, Governor's Office for Policy and Management; Margaret Pennington, Cabinet for Health Services; Mitchell Payne and Sonny Altman, University of Louisville; Warren Nash, Economic Development Cabinet; Sandy Williams, Kentucky Infrastructure Authority; and George Burgess, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, Bart Hardin, and Shawn Bowen.

Representative Jodie Haydon, presiding Chair, called the meeting to order, and the secretary called the roll.

Representative Marcotte made a motion to approve the minutes of the September 21, 2003, meeting as submitted. The motion was seconded by Senator Moore and passed by voice vote.

Representative Haydon called on Ms. Collins to review correspondence and information items. Ms. Collins advised that the members' folders included correspondence from the Kentucky Center and the University of Kentucky; the semi-annual report of the Kentucky Asset/Liability Commission; the Kentucky Lottery Corporation's monthly financial report; a staff update on various capital projects; an EMPOWER Kentucky Status Report; and a report on Kentucky's Bonded Indebtedness. Ms. Collins stated that quarterly project status reports from the Administrative Office of the Courts, the Finance and Administration Cabinet, Murray State University, University of Kentucky, and University of Louisville were also included in the folders. She noted

that the Finance and Administration Cabinet and Murray State University had not included an update on projects authorized under the current budget, and they had been asked to resubmit their reports.

Representative Haydon introduced Jamie Link, Acting Commissioner of the Department for Facilities Management, to present an update on the Winchester State Office Building. Mr. Link said the 1998 General Assembly budgeted \$2.5 million for the construction of a new building in Winchester. He said as the project developed, it became clear \$2.5 million was not enough money, and an additional \$1 million was authorized by the General Assembly, bringing the project budget to \$3.5 million. The project will provide a 22,000 square foot office building primarily for use by the Workforce Development Cabinet and the Cabinet for Families and Children. Current space in Winchester for these agencies is inadequate for their needs, and this building will provide a one-stop for clients of both agencies.

Mr. Link said the City of Winchester desires that this project be built in the downtown area, and this is in keeping with the Governor's Smart Growth and downtown revitalization initiatives. He indicated that the Department had experienced difficulties finding a location for the new office building. To date, approximately 12 properties have been evaluated, but for various reasons, none of the properties have been deemed suitable for construction or renovation.

Senator Leeper asked how long the state had been trying to find a building site, and if it is unusual to take so long. Mr. Link said seeking a site in the downtown area is somewhat restrictive, and the properties they have identified with willing sellers have exceeded the appraised values. He said they are continuing to consider some of the properties identified.

Senator Leeper asked if they could construct the building outside of the city limits. Mr. Link said one of the properties they identified was outside the downtown area. However, he said that the site must be easily accessible to clients. Mr. Hintze said the authorizing language in the law does not prohibit construction outside the downtown area.

Senator Leeper asked if any of the state agencies that planned to move into the facility have found alternative space, and if they are located in unsafe facilities. Mr. Link said the Cabinet for Families and Children is located in leased space they have occupied for some time now. He said the Workforce Development Cabinet is located in a building they own, but the building is in substandard condition and the parking is inadequate.

In response to another question from Senator Leeper, Mr. Link said the Workforce Development Cabinet and the Cabinet for Families and Children are the only two agencies that will be located in this facility. Mr. Hintze explained that the project

description for this project says seven agencies were anticipated as tenants in this building; however, this is not a requirement in the budget bill.

In response to a question from Senator Moore, Mr. Hintze said this project was added to the budget by the General Assembly, and there was a stated preference that, if at all possible, the project be located downtown in the City of Winchester to better serve the clientele of the state agencies and to enhance the downtown. He said he was not aware of any tax issues related to the project.

Representative Marcotte said it would make sense to construct the building outside of the downtown if a site cannot be found in town. He said it may be good for economic development to draw people to another part of town.

Next, Mr. Hintze and Mr. Link presented the monthly Finance and Administration Cabinet project report. Mr. Hintze reported a \$56,400 agency funded scope increase for the Eastern Kentucky University (EKU) Student Services Building project. This project was authorized by the 1998 General Assembly for \$20 million (bond funds). The additional funds will be used to cover the cost of minor change orders and equipment purchases. The revised scope would be \$20,056,400.

Mr. Hintze reported a project modification for the Cabinet for Health Services (CHS) Department for Mental Health and Mental Retardation's Structural Repair/Renovation project at Oakwood in Somerset. The Department was allocated \$2,009,000 in the current biennium to remodel a portion of Cottage 102 at the Oakwood facility and to address other problems dealing with licensure standards, ADA requirements, and capacity issues. CHS is seeking authorization to modify the project by instead purchasing and installing modular homes for clients that will eventually transition out into the community.

Ms. Margaret Pennington, Commissioner of the Department of Mental Health/Mental Retardation Services, said this project modification will address the need to provide patients an opportunity to live in the broader community if they so choose. The modular homes will be built on the Oakwood campus, and will enable residents to have an environment they can move into as they transition from the larger Oakwood campus into the community environment. She said they plan to build four to six small homes that would house four people each in four bedrooms. Commissioner Pennington said the modular homes would also help them with a new group of residents coming to Oakwood. She explained that the state has been visited by the federal Office of Civil Rights concerning keeping people longer than necessary in state hospitals. As a result of that visit, CHS is trying to move people out of those state hospitals and into environments like Oakwood or into other environments in the community. Because those folks have particularly challenging needs, it has been difficult to place these people in community programs.

Senator Moore made a motion to approve the ECU Student Services Building project scope increase and the modification relating to the Oakwood project. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Mr. Hintze next reported the purchase of unbudgeted scientific equipment by Western Kentucky University (WKU). The university purchased a magnetic resonance spectrometer for \$349,200. The equipment will be paid for with federal funds. Representative Haydon said no action is required for purchases of scientific equipment.

Mr. Mitchell Payne, Associate Vice President for Business Affairs, University of Louisville (U of L), and Mr. Sonny Altman, Director of Contract Administration, U of L, reported the renewal of two leases for the university. The university is renewing one lease for office/warehouse space at a cost of \$153,228 annually and one lease for warehouse space at a cost of \$123,684 annually.

Senator Leeper noted Mr. Bill Pearson submitted the winning bids on the leases. He asked what his relationship was to the landlords. Mr. Payne said Mr. Pearson is the son-in-law of the property owners.

Representative Marcotte made a motion to approve the two U of L leases. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Economic Development Cabinet, reported two Economic Development Bond (EDB) projects. Mr. Nash reported a grant of \$87,000 to the Henderson County Fiscal Court to benefit Columbia Sportswear Company. Mr. Nash said the funds will be used to construct a 428,000 square foot distribution facility to be located in an industrial park in Henderson County. In return for the grant, the company will be required to create 87 full-time jobs and to maintain those jobs for an additional three-year period. If they do not create or maintain these jobs, the company will be required to pay the county \$1,000 for each job not created or maintained. The average hourly wage for new employees is \$10.34.

Mr. Nash then reported an EDB grant in the amount of \$210,000 to the City of Murray to benefit Briggs and Stratton Corporation. The corporation is planning a 5,040 square foot expansion to its current 285,000 square foot facility, and will use the grant proceeds to underwrite the cost associated with the acquisition of land and improvements for an additional employee parking facility. If the corporation ever ceases to exist, the land will revert back to the City of Murray. Mr. Nash said the corporation will be required to create an additional 98 full-time jobs within one year of disbursement of the grant proceeds. The corporation will be required to pay a minimum wage of \$14.11 per hour. If they fail to meet the requirements of the grant, they will be required to pay the

Murray-Calloway County Economic Development Corporation the sum of \$4,286 per job not created or maintained.

Senator Moore made a motion to approve the EDB grants for Henderson County and Calloway County. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Senator Leeper noted there was money remaining in a project account from a Minimum Security Dorm project at the Blackburn Correctional Complex. He asked if the Department of Corrections plans to use the remaining funds (\$1.3 million) to construct a visiting center that has not been authorized by the General Assembly. Mr. Hintze indicated that the Department of Corrections had wanted to use the remaining funds to construct a visiting center at Blackburn. When this request was presented to GOPM, however, he said the Department was told they did not have the authorization from the General Assembly to proceed with rechanneling the money to a visiting center, and they would need to make a formal budget request to the General Assembly in the 2004 session. He said the Department of Corrections is in the process of preparing a budget request for the 2004 General Assembly for a visiting center.

Representative Haydon said the next agenda item was the bond activity report from the Office of Financial Management. He asked Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), to report new items proposed for KIA assistance. Ms. Williams presented one Fund A loan request in the amount of \$226,775 for the Mountain Water District in Pike County. The proceeds will be used to complete Phase I of a three phase project to eliminate the existing sewer system, straight pipes, and overloaded septic systems.

Ms. Williams next discussed an increase of \$118,167 (6%) in a Fund A loan to the City of Salyersville in Magoffin County. The original loan amount was \$1,951,486 and the revised loan amount is \$2,069,653. The increase in the loan amount is necessary due to the rebidding of the contract as a result of the initial contractor's default on the bonding requirement.

Ms. Williams next discussed a restructuring of a prior Fund C loan made to the Jonathan Creek Water District (Marshall County) in 1993. The Water District is delinquent on principal and interest of \$120,400, and KIA has agreed to restructure the outstanding amount of the loan which is now \$2,282,980. The loan has a new interest rate of 5% and annual payment will be \$208,976. The prior terms were 7% with an annual payment of \$226,000.

Senator Rhoads made a motion to approve the three KIA projects. The motion was seconded by Representative Marcotte and approved by unanimous roll call vote.

Ms. Williams also presented 16 new 2020 Account/Fund B Grants: Bracken County Water District - Storage tank; land purchase; waterline extension (2 projects); City of Albany - Waterline extension; Garrard County Water Association - Waterline extension; Green River Valley Water District - Waterline extension; Paintsville Utility Commission - Waterline extension; City of Calvert City - Waterline extension; North Marshall Water District - Waterline extension; Western Lewis Rectorville Water District - Waterline extension (2 projects); Green River Valley Water District - Waterline extension; City of Mount Vernon - Raw water intake; line; pump; and meter; Russell Springs Water Works - Waterline extension; and US 60 Water District - Waterline extension (3 projects). Since the committee conditionally approved these project allocations in January 2002, no further action was required.

Ms. Williams presented 19 new Coal/Tobacco grants: City of Manchester - Sewer pump station rehab.; City of Manchester - Sewerline replacement; City of Princeton - Storage tank improvement; Raceland Water Works - Raceland Phase I, III, IV (line extensions); East Daviess County Water Association - Storage tank construction and line extension; Green Hills Water District - Waterline extension; Morgan County Water District - Waterline extension; City of Hazard - Waterline extension (2 projects); City of Albany - Waterline extension; Clinton County Fiscal Court - sewerline extension; Lewis County Fiscal Court - Industrial Park tank; Logan/Todd Regional Water Commission - water improvements; Montgomery County Fiscal Court - Meter replacement and system improvements; Pendleton County - Waterline extension, Phase I, II, & III (2 projects); Rockcastle County Water Association - Waterline extension; replace wells/cisterns; and pump station; US 60 Water District - Waterline extension; and Logan/Todd Regional Water Commission - new water mains. The coal/tobacco development grants were approved as line item projects in the enacted 2002-04 Budget and no further action is required.

Mr. George Burgess, Executive Director, Office of Financial Management, next reported a new bond issue: State Property and Buildings Commission (SPBC) Agency Revenue Bonds Project 81, \$57,660,142. Proceeds from this issue will finance the Kentucky State Fair Board South Wing C project. This project was authorized in the 2002-04 enacted budget; debt service for the issue will be from agency funds. Mr. Burgess said the SPBC bond issue is replacing an Asset Liability Commission (ALCo) bond issue, which was initially proposed and transmitted to the Committee. Under the original ALCO issue, Morgan Stanley was selected as the underwriter and Peck, Shaffer and Williams was selected as bond counsel. Morgan Stanley had chosen Chapman and Cutler as their underwriter's counsel. When the decision was made to issue bonds under SPBC rather than ALCO, a decision had to be made as to whether OFM should maintain the rotation they had established for underwriters and bond counsels for SPBC issues. Mr. Burgess said they did not feel it was fair to follow the established rotation and take Morgan Stanley off the project, since that firm had already done work on the issue. They decided to deviate from the established rotation to allow Morgan Stanley, part of the

SPBC pool, to continue to work on the issue. On the other hand, OFM did not feel they could allow Peck, Shaffer and Williams to continue as bond counsel since that firm is not part of the pool for the SPBC issues. Mr. Burgess said they did deviate from the rotation pool for bond counsel by selecting Chapman and Cutler. This firm is part of the SPBC pool and they had done work on the issue already acting as underwriter counsel. Morgan Stanley has now chosen Peck, Shaffer and Williams to be the underwriter's counsel.

Mr. Burgess said everyone is in agreement with the deviation, and feels it is the fair thing to do. He said when they started this rotation, they intended to keep it in order, but sometimes circumstances present themselves where they have to deviate from that. Mr. Burgess said he called the two underwriting firms, as well as the other two law firms, that are participating in the pool, and explained to them the way the Office of Financial Management wanted to proceed, and those entities agreed with the decision.

Mr. Burgess presented four other bond issues: University of Kentucky Housing and Dining System Refunding Revenue Bonds, Series M and O (Second Series), dated October 1, 2003, \$4,245,000; University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series O, (Second Series), dated October 1, 2003, \$9,279,427; University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series T, dated October 1, 2003, \$17,645,000; and University of Louisville Consolidated Educational Buildings Revenue Bonds, Series O, dated October 1, 2003, \$11,060,000.

Representative Marcotte made a motion to approve the five new bond issues. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Mr. Burgess then reported three follow-up reports for previously approved bond issues: University of Kentucky Housing and Dining System Revenue Bonds, Series S, dated August 1, 2003; Western Kentucky University Consolidated Educational Buildings Revenue Bonds, Series P, dated September 1, 2003; and Murray State University Educational Buildings Refunding Revenue Bonds, Series H (Second Series) dated September 1, 2003. Representative Haydon said these bond issues were approved at an earlier committee meeting and did not require action.

Mr. Burgess then reported eight new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Campbell County, Danville Independent (Boyle County), Erlanger-Elsmere Independent (Kenton County), Logan County, Madison County, Monroe County, and Pike County (2).

Senator Rhoads made a motion to approve the school bond issues. The motion was seconded by Senator Moore and passed by unanimous roll call vote.

Representative Haydon said there were four locally-funded school bond issues submitted to the committee for review this month: Butler County, Campbellsville

Independent (Taylor County), Monroe County, and Taylor County. He said all disclosure information has been filed, and no further action on the bond issues is required.

Representative Haydon said the committee's next meeting is tentatively scheduled for November 18 at 12:30 p.m. at the new Transportation Office Building in Frankfort.

With there being no further business, Representative Marcotte made a motion to adjourn the meeting. The meeting adjourned at 2:00 p.m.